Sri Lankan government to impose IMF dictated taxes

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The Sri Lankan government tabled a new bill early last month designed to expand its tax income. The proposed taxes, which have been effectively authored by the International Monetary Fund (IMF), will increase the economic burden on workers, small businesses and the self-employed while providing more concessions to big business. The bill is expected to be passed later this month

Finance Minister Mangala Samaraweera told a press conference on July 21 that everyone over the age of 18 years should have a taxpayer number “regardless of whether he or she had to pay taxes or not.” In a crude attempt to deflect opposition to the new measures, State Minister of Finance Eran Wickramaratne told the same media event that the government would not tax the poor but then insisted that “everybody must pay tax.”

The government proposals include:

* Every resident or non-resident’s annual income, whether from employment, business, investment or other sources and starting at 600,000 rupees per year or 50,000 rupees (about $US300) per month will be taxed. This starts at 4 percent on annual incomes of 600,000 rupees and climbs to 24 percent for 3,000,000 rupees or more per year.

While the average monthly income for workers is around 15,000 rupees per month, state employees and bank workers, as well as some private sector workers, receive around 50,000 rupees or more per month. Many workers also have second jobs in order to cope with Sri Lanka’s rising cost of living.

* All pension funds, including the Employee Provident Fund (EPF), above a total lump sum payout of 2,000,000 rupees will be subjected to taxes of 5 to 10 percent. Almost all other payments, including employee compensation, termination allowances and other imbursements will also be taxed. While some corporations and the state banks previously paid their employees’ taxes, these workers will lose this benefit under the new system.

Under the new proposals there will be generous concessions for big business and investors, including:

* Corporate taxes for industries such as agriculture, exports, tourism, information technology, and education will be dropped to just 14 percent. This rate is very low by global standards.

* Taxes for other businesses will be just 28 percent, which is also low compared to other taxes in South Asian countries, such as India and Pakistan where it is 30 and 31 percent respectively.

* Taxes on dividends, interest, life insurance, and shares transactions on the Colombo Stock Exchange are expected to remain low under the new laws.

The Ceylon Chamber of Commerce immediately praised the tax bill, declaring that it was “happy to note that most [of their] submissions were accepted.” The big business peak body said that it planned to negotiate certain provisions relating to “the practical implementation of the proposed law.”

Amid growing competition for foreign investment, successive Sri Lankan governments have offered generous tax concessions while pushing regressive indirect taxes onto working people.

Finance Minister Samaraweera declared that he wanted to change the current ratio of direct and indirect taxes from 20 and 80 percent to 40 and 60 percent respectively. This is an attempt to hoodwink people into believing that the new system will reduce indirect taxes and provide some financial relief. In fact, the new taxes measures come on top of increases in the indirect VAT tax, which was lifted to 15 percent in November, and other government levies.

The IMF complains that Sri Lanka’s tax receipts are only 12 percent of GDP and that efforts must be made to increase the amount and boost government income. The international bank wants the budget deficit, which was 5.4 percent of GDP last year, reduced to 3.5 percent by 2020.

Implementation of the new tax bill was an IMF requirement for the release of its third installment of a $1.5 billion loan. Two weeks after the government tabled the bill, the IMF announced that the third tranche, which amounts to $167 million, had been approved and would be paid in September.

The squeezing of working people in Sri Lanka through higher direct taxes follows the imposition of similar measures last April in Greece at the behest of the IMF and European banks. In Greece, the tax-free threshold was reduced to €5,000 per year, down from the prevailing €8,636. This meant that workers earning less than €500 a month, which is below the poverty line, are now forced to pay tax.

The Sri Lankan government is reeling under massive foreign and domestic debts, declining exports and remittances, and faces a growing balance-of-payments crisis. On the directives of international capital and in alliance with Sri Lankan big business, Colombo is demanding that workers and the poor bear the burden.

Five trade unions at the Inland Revenue Department have criticised the new tax regime and made submissions to the Supreme Court alleging that some of the tax bill violates the constitution. The Inland Revenue Department Commissioner General will be given extensive powers under the bill, including the appointment of private individuals, corporate entities or non-governmental bodies to collect taxes.

The unions have also pointed out that the finance minister has the power "to inspect the tax files of individuals and appoint teams of tax officers without considering the service minutes of the department." Under the new tax laws, "tax officers may no longer be required to give reasons for rejecting assessments" and the finance minister can "increase income tax rates without parliamentary approval."

The new tax regime is part of broader austerity measures being demanded by the IMF. Other demands include the privatisation and commercialisation of state institutions, slashing of social welfare and the evisceration of public health and education.

While the trade unions at the Inland Revenue Department held a one-day strike on July 10 against the projected tax laws, these protests are aimed at preventing a direct political confrontation with the government and fostering illusions that Colombo can be pressured to soften the new taxes.